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NSC FOR FISK AND CARDENAS

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SUBJECT: PANAMA: SCENESETTER FOR PRESIDENT TORRIJOS'
FEBRUARY 14-16 VISIT TO WASHINGTON

REF: A. (A) PANAMA 61

- 1B. (B) PANAMA 72
- 1C. (C) PANAMA 85
- 1D. (D) PANAMA 112
- 1E. (E) PANAMA 147
- 1F. (F) PANAMA 148

Classified By: Ambassador William A. Eaton. Reasons: 1.4 (a), (b) and (d)

Summary

11. (C) Panamanian President Martin Torrijos will visit Washington February 14-16 for a meetings with the President and the Secretary of Defense, outreach to the AFL/CIO, business leaders, and the Hill to lobby for adoption of the U.S.-Panama Trade Promotion Agreement (TPA). Indeed, advancing the TPA will top Torrijos' agenda in Washington. Equally high on Torrijos' agenda will be promoting expansion of the Panama Canal -- both the opportunities this enormous construction project will offer and the eventual enhanced benefits for international commerce that it will entail. Torrijos will also likely seek to discuss a number of regional issues including Nicaragua, Venezuela, Colombia, and Cuba and may brief a Panamanian proposal for an add-on activity for the PANAMAX 2007 multilateral military exercise scheduled for September. Torrijos may feel compelled -- by either political or press attention -- to raise Panama's request to extradite ex-general Manuel Noriega and Panama's claim that the U.S. has not completed its promised clean-up of unexploded ordnance (UXO) on former U.S. military ranges in Panama. Finally, Torrijos may seek to appeal significant cuts in U.S. assistance to Panama that are anticipated in the future. End summary.

Torrijos: Politically Confident and Strong

¶2. (C) Washington will receive a very confident Torrijos who enjoys the strongest political standing of his tenure and who is looking toward a bright future for Panama. (In addition to First Lady Vivian de Torrijos, 1st VP and FM Samuel Lewis and Minister of Trade and Industry Alejandro Ferrer will accompany Torrijos to Washington.) Over the past four months, he has chalked up two major victories: winning a referendum in October 2006 that authorizes the USD 5.25 billion expansion of the Panama Canal and completing negotiation of the U.S.-Panama Trade Promotion Agreement (TPA). Torrijos is soaring in the polls, enjoying astronomically high general approval ratings of over seventy percent. For 2007, Torrijos has laid out an aggressive governing agenda (REFTEL A) -- public transportation reform, healthcare reform, judicial reform, and education reform -- that will put him in direct conflict with entrenched interests, particularly unions. While he has made significant advancements in enhancing the safety of public buses, Torrijos efforts to achieve broader judicial reform by calling a special session of the National Assembly have bogged down, even requiring that he extend the length of the special session.

¶3. (C) Torrijos' Revolutionary Democratic Party (PRD) dominates the political landscape and governmental institutions and faces a fractured opposition. This summer Torrijos will need to focus more time and energy on what is shaping up to be a bruising internal PRD fight for control of the party and its nominee for the 2009 presidential elections. Torrijos, who is also the PRD Secretary General, is putting Housing Minister Balbina Herrera forward to be PRD President running her against former President Ernesto "El

Toro" Perez Balladares. Perez Balladares, 1st VP and FM Samuel Lewis, and Panama City Mayor Juan Carlos Navarro are all vying to be the PRD's presidential candidate. Torrijos hopes to navigate this summer's PRD political schedule to secure the presidential nomination for Lewis while maintaining a unified PRD. The frayed opposition is salivating at the prospect of a brutal fight inside the PRD that might split the PRD and open political space for the opposition. Though he made some progress fulfilling his campaign pledge to put Panama's financial house in order, Torrijos has made few inroads fulfilling his "zero corruption" pledge and only some progress in creating more employment. Corruption remains endemic and, and employment remains the most important issue in the minds of voters. We should urge the GOP to accelerate its fight against corruption, particularly through prosecutions.

Strong Economic Grown, but High Poverty Rates Persist

¶4. (C) Strong growth in trade, maritime and banking services, and construction continue to drive an economic boom that has pushed Panama's USD 15 billion economy to current annual growth of about 8 percent. Although official unemployment has dipped to 8.6 percent (down from previous levels of 12 to 14 percent), most job creation remains outside the formal economy. Moreover, despite impressive economic growth, Panama's poverty level stubbornly persists at nearly 40 percent and income disparities remain among the region's worst.

¶5. (C) The Torrijos Administration hopes that sustained growth resulting from the Panama Canal expansion project and the prospective U.S.-Panama TPA will push Panama forward into "first world" status. However, neither the Canal expansion nor the TPA is a panacea, as Panama's advancement remains hindered by public institutions (e.g., ministries, regulatory agencies, courts, political parties, schools, healthcare systems) that remain weak and in need of significant reform. Torrijos pushed through tough fiscal and social security reforms during his first two years that have already delivered results. We should encourage Torrijos to build on

his popular support and solid economic track record by pressing forward with the tough institutional reforms and anti-corruption efforts needed to ensure that Panama's economic gains translate into meaningful reductions in poverty and improved income distribution.

Panama Seeks to Build Support for TPA

¶6. (SBU) Torrijos closed 2006 on a high note with the December 19 conclusion of the TPA negotiations with USTR. Minister of Trade Alejandro Ferrer, who will accompany Torrijos to Washington, has built broad support for the TPA among Panamanian producer groups. As a result, the GOP is confident that the pact will be ratified by Panama's National Assembly, as TPA opponents have so far gained little traction. In addition to solidifying domestic support for the TPA, the GOP is working to build bipartisan support for the pact on the Hill. We should stress that the GOP's strict follow-through on related commitments, particularly the bilateral agreement on sanitary and phytosanitary measures is vital to enhancing the TPA's prospects for Congressional approval.

Panama Engaged Globally and Regionally

¶7. (C) Panama's election to the UN Security Council (UNSC) and hosting of the Organization of American States General Assembly (OASGA) in June have not only elevated Panama's international profile, but also validated Torrijos' foreign policy aimed at sustaining friendly relations with all nations, particularly its hemispheric neighbors. Having emerged only in late 2006 as the Hemisphere's consensus candidate to break the deadlock between Venezuela and Guatemala, Panama was not initially prepared for the responsibility of UNSC membership, but now has its UNSC team in place and is gradually learning the ropes. Panama supported adoption of a resolution on Burma (blocked by Chinese and Russian vetoes), chairs UNSC's Counterterrorism Committee, and is striving to play a constructive role on renewal of the MINUSTAH peacekeeping operation (PKO) for Haiti by urging Beijing and Taipei to refrain allowing their conflict to have a deleterious effect on this essential PKO. Panama has also counseled Haiti to avoid antagonizing Beijing. Panama, inclined to run for the center and to find the emerging consensus, will be nervous about staking out clear positions that put its ability to be everybody's friend at risk. Panama will host the OASGA on the thirtieth anniversary of the signing of the Panama Canal Treaties at OAS headquarters in Washington and has made hemispheric energy security a centerpiece of this OASGA's agenda. Regionally, Panama has positioned itself to be an intermediary capable of talking to all sides.

¶8. (C) Torrijos will raise a number of regional issues (REFTEL E) during his visit and is likely to be eager to serve as an intermediary for the U.S.:

-- Venezuela: When the UNSC elections deadlocked between Guatemala and Venezuela, Panama was one of the few countries in the hemisphere capable of bridging this polarizing divide and uniting the hemisphere behind its candidacy. Torrijos visited Guatemala in November to thank President Berger for stepping aside and plans to travel to Venezuela to pay his respects to Chavez for doing the same. Torrijos recently sent emissaries to Caracas to try to finalize a date for his on-again/off-again visit, and Torrijos's visit to Caracas is now scheduled for March 2, Lewis told Ambassador on February **¶5.** Lewis has voiced serious concerns about Chavez's threat to independent media and to expropriate strategic industries and companies. Should Torrijos visit Caracas, we should underscore that Torrijos cannot remain silent on Chavez's continued undermining of democratic norms and accumulation and exercise of authoritarian powers.

-- Colombia: Torrijos may request USG assistance managing pressure from Colombian President Uribe. Lewis told Ambassador January 30 that Uribe was refusing to take no for an answer in response to Uribe's constant pressure to build the Pan-American Highway through the Darien and was directly linking relief for Panama's Colon Free Zone to progress on the highway.

-- Nicaragua: Panama has offered to play a role in engaging Nicaragua, a role that Torrijos has been willing to take on.

-- Cuba: In discussing transition on the island, Panama stresses stability over progress towards democracy. Doubting the Cuban people's desire for or ability to take on democracy, Torrijos is likely to stress that the Cuban people must decide their own future as outside pressure to move toward democracy would risk instability. Panama often points to a younger generation of Cuban apparatchik (e.g., Felipe Perez Roque) as the kind of people the U.S. should engage to ensure stability and a gradual opening in Cuba in the wake of Castro's death.

PANAMAX: Addressing Terrorist Threats

¶9. (C) Lewis hosted a briefing on January 17 for the Ambassador on a Panamanian proposal to expand the annual PANAMAX exercises to include a table top exercise to examine ways to deal with the asymmetric threats posed by terrorists and narcotraffickers to Panama and its canal (REFTEL D). SOUTHCOM Commander ADM Stavridis was also briefed on Panama's proposals during his January 18-19 visit (REFTEL C). The Panamanians envision an exercise that brings together police, intelligence, emergency response, military and other capabilities to meet these threats and that includes participation from all countries that currently participate in PANAMAX. Panama has laid out an extremely ambitious timeline aiming to have a multilateral table-top exercise ready to go by August 2007. While managing Panamanian expectations, we should nonetheless seek to take advantage of Panama's opening to engage more broadly and creatively on these security threats as it reflects a growing serious, confidence, and maturity in providing for its own security.

Watch Out For: Noriega, UXO, U.S. Assistance

¶10. (C) Noriega: The extradition of Panamanian ex-strongman Manuel Noriega, scheduled to be released from U.S. federal custody on September 9, 2007, to "face justice in Panama" has recently grabbed the headlines in Panama. While he made strong statements insisting Noriega be extradited to Panama, 1st VP and FM Lewis has also re-stated to Ambassador that Panama does not want Noriega back. Presidential aspirant Lewis though will be tempted to grandstand on Noriega to fend off opposition attacks and to burnish his image as "new PRD."

¶11. (C) UXO: No sooner was Torrijos' meeting with the President announced, then press reporting began to speculate that Torrijos would assert its case that the U.S. had not fulfilled its treaty commitments to clean former U.S. military ranges of unexploded ordinance. We have repeatedly underscored that the U.S. has fulfilled its treaty obligations on this matter and stressed that we consider this matter closed. Likewise, we remind Panama that they rejected our offer to help finance the clean-up of San Jose Island, for which we have no treaty obligations whatsoever.

¶12. (C) U.S. Assistance: Torrijos is aware that U.S. assistance to Panama will be significantly reduced in the near future. GOP officials have been especially concerned about dramatic reductions in economic development programs. Lewis has recently inquired, knowing Panama does not meet the requirements of the program, whether Panama could participate in the Millennium Challenge process. Lewis has noted that while Panama's high level of per capita GDP disqualifies it,

Panama continues to face significant poverty and development challenges, and would like continued USG support to help address these issues.

Eaton